



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE CABINET FOR FAMILIES AND CHILDREN**

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

Report of the Auditor of Public Accounts Audit of the Cabinet for Families and Children For the Year Ended June 30, 2001

BACKGROUND: The Single Audit Act of 1984, subsequent amendments, and corresponding regulations, require the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Commonwealth. To comply with these requirements, we audited internal controls and compliance at both the central and agency level. This summary is on our audit of one (1) organizational unit of the Commonwealth, the Cabinet for Families and Children.

EXPENDITURES: The Cabinet for Families and Children expended federal awards totaling \$845,890,108 in the following manner:

- \$501,772,516 in cash from federal grantors
- \$344,117,592 in noncash grants (Food Stamp benefits)

SUMMARY OF AUDITORS RESULTS:

Financial Statement Accounts

Compliance: No instances of noncompliance

Internal Control Over Financial Reporting: One (1) reportable condition, which is not a material weakness.

Federal Awards and Schedule of Expenditures of Federal Awards

Compliance: Three (3) instances of noncompliance, none of which are material weaknesses.

Internal Control Over Compliance: Six (6) reportable conditions, none of which are material weaknesses and one (1) other matter.

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INTRODUCTION

**CABINET FOR FAMILIES AND CHILDREN
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001**

Introduction

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Schedule of Expenditures of Federal Awards

This report contains the Schedule of Expenditures of Federal Awards for the Cabinet for Families and Children (CFC). The Notes to the Schedule of Expenditures of Federal Awards follow the schedule to provide more detailed information on certain aspects of the expenditures, such as the amount given to subrecipients.

Since not all state agencies use the Management Administrative Reporting System (MARS) Subsystems for Projects, the APA requested CFC to prepare worksheets of federal financial assistance both cash and noncash. The source of these worksheets included MARS, agency accounting systems, agency manual records, etc. CFC was also asked to reconcile the worksheets to MARS and to federal grantor reports. These worksheets were compiled into the accompanying Schedule of Expenditures of Federal Awards.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three (3) sections:

- Summary of Auditor's Results,
- Financial Statement Findings, and
- Federal Award Findings and Questioned Costs.

The audit finding number and classification (as reportable, material, or other matter) are provided as part of the audit opinion summary. Major programs audited are listed on the Summary of Auditor's Results. The Financial Statement Findings list the audit findings related to the financial statements (required to be reported in accordance with *Government Auditing Standards*). The Federal Award Findings and Questioned Costs lists all findings related to federal awards. Generally, the state agency, CFDA number and program, federal agency, pass-through agency, and the compliance area to which the finding relates are presented. In both reports, reportable conditions and reportable instances of noncompliance are presented first, then material weaknesses and material instances of noncompliance, followed by other matters.

CABINET FOR FAMILIES AND CHILDREN
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2000, as well as any previous findings which have not been resolved, are reported in CFC's Summary Schedule of Prior Audit Findings for the fiscal year ended June 30, 2001. If the APA determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable, material, or other matter. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action.

Audit Approach

Our audit was conducted in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Government Auditing Standards* (also referred to as the Yellow Book), and auditing standards generally accepted in the United States of America. The scope of the statewide single audit for the year ended June 30, 2001 included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with auditing standards generally accepted in the United States of America;
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with auditing standards generally accepted in the United States of America;
- An audit of the internal control applicable to CFC, to the extent necessary to consider and test the internal accounting and administrative control systems as required; and
- A selection and testing of transactions and records relating to each major program to obtain reasonable assurance that CFC administers its major programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the general-purpose financial statements of the Commonwealth.

CABINET FOR FAMILIES AND CHILDREN
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)

Audit Approach (Continued)

The APA conducted the audit of internal controls, focusing on the following objectives:

- Considering the internal control in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth.
- Determining if CFC has internal controls to provide reasonable assurance that it is managing the major programs in compliance with applicable laws and regulations.

List of Abbreviations/Acronyms Used in This Report

ADDs	Area Development Districts
FTP	File Transfer Protocol
APA	Auditor of Public Accounts
CCDF	Child Care and Development Fund
CCMMF	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
CFC	Cabinet for Families and Children
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CSE	Child Support Enforcement
Commonwealth	Commonwealth of Kentucky
DCBS	Department for Community Based Services
DHHS	U.S. Department of Health and Human Services
DSI	Department of Social Insurance
EBT	Electronic Benefits Transfer
EDGE	The software system at eFunds Corporation used to transfer electronic benefit authorization for the food stamps program
EKCCC	Eastern Kentucky Child Care Council
FNS	Food and Nutrition Services
FY	Fiscal Year
KAMES	Kentucky Automated Management and Eligibility System
KASES	Kentucky Automated Support and Enforcement System
KCA	Kentucky Automated Claims System
KCCMS	Kentucky Child Care Management System
KY	Kentucky
KRS	Kentucky Revised Statutes
K-TAP	Kentucky Transitional Assistance Program
LIHEAP	Low-Income Home Energy Assistance Program

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

List of Abbreviations/Acronyms Used in This Report (Continued)

MARS	Management Administrative Reporting System
MS	Manual Section
NA	Not Applicable
NMB	Network Management Branch
OAG	Office of Attorney General
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTS	Office of Technology Services
PA	Public Assistance
SAS	Statements on Auditing Standards
SEFA	Schedule of Expenditures of Federal Awards
SRA	Service Region Administrators
SSWAK	Statewide Single Audit of Kentucky
TANF	Temporary Assistance for Needy Families
TWIST	The Workers Information System
U.S.	United States
USDA	United States Department of Agriculture
WtW	Welfare-to-Work

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2001**

State Agency Federal Grantor CFDA #/ Program Title	Expenditures	
	Cash	Noncash
<u>U.S. Department of Agriculture</u>		
Direct Programs:		
10.551 Food Stamps (Note 2) (Note 3) (Note 4)		\$ 344,117,592
10.561 State Administrative Matching Grants for Food Stamp Program (Note 2) (Note 5)	\$ 26,543,867	
<u>U.S. Department of Labor</u>		
Direct Programs:		
17.253 Welfare-to-Work Grants to States and Localities (Note 5)	8,059,375	
<u>U.S. Department of Energy</u>		
Direct Programs:		
81.042 Weatherization Assistance for Low-Income Persons (Note 5)	3,199,497	
<u>U.S. Department of Health and Human Services</u>		
Direct Programs:		
93.556 Promoting Safe and Stable Families (Note 5)	3,303,699	
93.558 Temporary Assistance for Needy Families (Note 2) (Note 5)	203,100,970	
93.563 Child Support Enforcement (Note 2) (Note 5)	41,009,729	
93.568 Low-Income Home Energy Assistance (Note 2) (Note 5)	27,476,170	
93.569 Community Services Block Grant (Note 5)	7,856,397	
93.571 Community Services Block Grant Discretionary Awards- Community Food and Nutrition (Note 5)	60,678	
93.575 Child Care and Development Block Grant (Note 2) (Note 5)	13,844,066	
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2)	20,261,345	
93.597 Grants to States for Access and Visitation Programs (Note 5)	82,424	
93.603 Adoption Incentive Payments (Note 5)	75,359	
93.643 Children's Justice Grants to States (Note 5)	155,236	
93.645 Child Welfare Services - State Grants	4,847,308	
93.658 Foster Care - Title IV-E (Note 2)	52,789,524	
93.659 Adoption Assistance	10,203,823	
93.667 Social Services Block Grant (Note 2) (Note 5)	18,414,506	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

State Agency Federal Grantor CFDA #/ Program Title	Expenditures	
	Cash	Noncash
<u>U.S. Department of Health and Human Services</u>		
Direct Programs (Continued):		
93.669 Child Abuse and Neglect State Grants (Note 5)	\$ 1,665,231	
93.671 Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes (Note 5)	857,437	
93.674 Independent Living (Note 5)	799,204	
N/A The Placement and Treatment of Neuropsychiatric Patients	229,260	
Passed Through From Cabinet for Health Services:		
93.767 State Children's Insurance Program	1,492,811	
93.778 Medical Assistance Program (Note 2)	16,534,527	
<u>U.S. Corporation for National and Community Service</u>		
Direct Programs:		
94.003 State Commissions (Note 5)	153,825	
94.004 Learn and Serve America - School and Community Based Programs	13,325	
94.006 AmeriCorps (Note 5)	2,434,973	
94.009 Training and Technical Assistance	58,201	
<u>U.S. Social Security Administration</u>		
Direct Program:		
96.001 Social Security - Disability Insurance (Note 2)	36,249,749	
Total Cabinet for Families and Children	\$ 501,772,516	\$ 344,117,592

See accompanying Notes to the Schedule of Expenditures of Federal Awards

CABINET FOR FAMILIES AND CHILDREN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

Note 1 - Purpose Of The Schedule And Significant Accounting Policies

Purpose of the Schedule - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*.

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in the Circular, federal financial assistance “. . . means assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals . . .” It includes awards received directly from federal agencies, or indirectly through other units of state and local governments. Accordingly, the accompanying schedule includes both cash and noncash federal assistance programs. Those programs that have not been assigned a catalog number, or for which the catalog number was not available, have been shown either at the bottom of the relevant federal grantor subheading or under the “Other Federal Assistance” subheading.

Reporting Entity - The accompanying schedule includes all federal financial assistance programs administered by CFC. CFC is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth entity for financial reporting purposes.

Basis of Accounting - The cash expenditures on the accompanying schedule are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, “. . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth’s general-purpose financial statements are presented on the modified accrual or accrual basis of accounting, depending on fund type. Therefore, the Schedule of Expenditures of Federal Awards may not be directly traceable to the general-purpose financial statements in all cases.

**CABINET FOR FAMILIES AND CHILDREN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The noncash expenditures presented on this schedule represent the noncash assistance expended by CFC during the period July 1, 2000 through June 30, 2001, using the method or basis of valuation as described in the notes to the schedule for each program. These noncash assistance programs are not reported in the Commonwealth's general-purpose financial statements for the year ended June 30, 2001.

Inter-agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of CFC's schedule:

- (a) Federal moneys may be received by one state agency (primary state agency - recipient) and passed through to another state agency (secondary state agency - sub-recipient) where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported in the schedule as follows:
- Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
 - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because CFC's schedule excludes federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedule as an expenditure of that state agency.

- (b) Federal moneys received by CFC and used to purchase goods or services from another state agency are reported in the schedule as an expenditure.

**CABINET FOR FAMILIES AND CHILDREN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Note 2 - Type A Programs

Under the provisions of OMB Circular A-133, a Type A program for the Commonwealth means any program for which total expenditures of federal awards exceeded \$15 million for FY 01. Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs shall be considered as one program for determining Type A programs. In relation to noncash federal financial assistance programs, this threshold is generally applied to the amount of assistance expended during the year, as presented on the noncash portion of the Schedule of Expenditures of Federal Awards, plus any cash expenditures under the same CFDA designation.

CFC had the following programs (cash and noncash) that met the Type A program definition for the year ended June 30, 2001. CFC identified four (4) clusters among the Type A programs. These Type A programs and clusters were:

CFDA #	Program Title	Expenditures
10.551	Food Stamps	\$ 344,117,592 b
10.561	State Administrative Matching Grants for Food Stamp Program	26,543,867 b
93.558	Temporary Assistance for Needy Families	203,100,970
93.563	Child Support Enforcement	41,009,729
93.568	Low-Income Home Energy Assistance	27,476,170
93.575	Child Care and Development Block Grant	13,844,066 a
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	20,261,345 a
93.658	Foster Care - Title IV-E	52,789,524
93.667	Social Services Block Grant	18,414,506
93.778	Medical Assistance Program	16,534,527 d
96.001	Social Security - Disability Insurance	36,249,749 c
Total Type A Programs		<u>\$ 800,342,045</u>

Identified clusters include:

- a** - Child Care Cluster
- b** - Food Stamp Cluster
- c** - Disability Insurance/SSI Cluster
- d** - Medicaid Cluster

**CABINET FOR FAMILIES AND CHILDREN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Note 3 - Activity Occurring in Programs With Inventoriable Items

CFC received, stored, and distributed inventory items related to the Food Stamps (CFDA #10.551) program in prior years. However, due to the Electronic Benefit Transfer (EBT) distribution of food stamps benefits, inventory is no longer applicable.

Note 4 - Noncash Expenditure Programs

CFC had one (1) noncash program in FY 01. This noncash program and a description of the method/basis of valuation follows:

CFDA #	Program Title	Amount	Method/Basis of Valuation
10.551	Food Stamps	\$344,117,592	EBT Issuance

Note 5 - Subrecipient Activity

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients:

CFDA #	Federal Program Name	Amount Sent
10.561	State Administrative Matching Grants for Food Stamp Program	\$ 140,749
17.253	Welfare-to-Work Grants to States and Localities	8,012,146
81.042	Weatherization Assistance for Low-Income Persons	2,918,169
93.556	Promoting Safe and Stable Families	2,036,399
93.558	Temporary Assistance for Needy Families	10,441,484
93.563	Child Support Enforcement	20,788,382
93.568	Low-Income Home Energy Assistance	27,259,370
93.569	Community Services Block Grant	7,733,701
93.571	Community Services Block Grant Discretionary Awards - Community Food and Nutrition	60,678

CABINET FOR FAMILIES AND CHILDREN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)

Note 5 - Subrecipient Activity (Continued)

CFDA #	Federal Program Name	Amount Sent
93.575	Child Care and Development Block Grant	\$ 8,560,268
93.597	Grants to States for Access and Visitation Programs	82,162
93.603	Adoption Incentive Payments	1,265
93.643	Children's Justice Grants to States	60,202
93.667	Social Services Block Grant	429,085
93.669	Child Abuse and Neglect State Grants	1,022,158
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	857,435
93.674	Independent Living	242,692
94.003	State Commissions	1,355
96.006	AmeriCorps	1,904,842
	Total Amount Sent to Subrecipients	<u>\$ 92,552,543</u>

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REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of the General-Purpose Financial Statements
Performed in Accordance With *Government Auditing Standards*

To the People of Kentucky
Honorable Paul E. Patton, Governor
Viola Miller, Secretary
Cabinet for Families and Children

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 2001, we have audited receipts, accounts payable, accounts receivable, expenditures, and payroll of the Cabinet for Families and Children (CFC), an organizational unit of the Commonwealth as defined by KRS 12.010, and have issued our report thereon dated December 21, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of CFC's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CFC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect CFC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 01-CFC-1.

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of the General-Purpose Financial Statements
Performed in Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

December 21, 2001



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133 and on the
Schedule of Expenditures of Federal Awards

To the People of Kentucky
Honorable Paul E. Patton, Governor
Viola Miller, Secretary
Cabinet for Families and Children

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Cabinet for Families and Children (CFC), an organizational unit with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. CFC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of CFC's management. Our responsibility is to express an opinion on CFC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CFC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of CFC's compliance with those requirements.

In our opinion, CFC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 01-CFC-2, 01-CFC-5 and 01-CFC-7.

Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133 and on the
Schedule of Expenditures of Federal Awards
(Continued)

Internal Control Over Compliance

The management of CFC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered CFC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect CFC's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-CFC-2, 01-CFC-3, 01-CFC-4, 01-CFC-5, 01-CFC-6 and 01-CFC-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that none of the reportable conditions described above are material weaknesses. However, we noted an other matter involving internal control over compliance, which we have described to management of CFC in the accompanying schedule of findings and questioned costs of this report.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the Commonwealth as of and for the year ended June 30, 2001, and have issued our report thereon dated December 21, 2001. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards of CFC is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements taken as a whole.

Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133 and on the
Schedule of Expenditures of Federal Awards
(Continued)

Schedule of Expenditures of Federal Awards (Continued)

The Commonwealth's general-purpose financial statements are prepared on an accrual/modified accrual basis of accounting. However, the schedule of expenditures of federal awards of CFC is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the schedule of expenditures of federal awards is not intended to present the expenditures of federal awards in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the schedule of expenditures of federal awards of CFC is fairly stated, in all material respects, in relation to the Commonwealth's general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Schedule of Expenditures of Federal Awards -
December 21, 2001

April 30, 2002

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statement Accounts

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth's general-purpose financial statements which included CFC, as of and for the year ended June 30, 2001.

Internal Control Over Financial Reporting: Our consideration of CFC's internal control over financial reporting disclosed one (1) reportable condition.

The reportable condition is presented in detail in Section 2 - Financial Statement Findings of the Schedule of Findings and Questioned Costs.

Compliance: The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Federal Awards and Schedule of Expenditures of Federal Awards

Compliance: We issued an unqualified opinion on CFC's compliance with the requirements applicable to each of its major federal programs. However, the results of our auditing procedures disclosed three (3) instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

The findings relative to compliance with requirements applicable to each of its major federal programs are presented in Section 3 - Federal Awards Findings and Questioned Costs of the Schedule of Findings and Questioned Costs.

Internal Control Over Compliance: Our consideration of CFC's internal control over compliance disclosed six (6) reportable conditions. In addition, our consideration of CFC's internal control over compliance disclosed one (1) other matter condition.

The reportable and other matter conditions relative to CFC's internal control over compliance are presented in Section 3 - Federal Awards Findings and Questioned Costs of the Schedule of Findings and Questioned Costs.

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on CFC's Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with accounting principles generally accepted in the United States of America as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth's general-purpose financial statements taken as a whole.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Identification of Major Programs Audited

OMB Circular A-133 defines a major program as "a Federal program determined by the auditor to be a major program in accordance with section _ .520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section _ 215(c)." Section _____.520 states, "[t]he auditor shall use a risk-based approach to determine which Federal programs are major programs." The following is a list of major Type A programs audited:

CFDA #	Program Title	Expenditures
10.551	Food Stamps	\$ 344,117,592 b
10.561	State Administrative Matching Grants For Food Stamp Program	26,543,867 b
93.558	Temporary Assistance For Needy Families	203,100,970
93.563	Child Support Enforcement	41,009,729
93.568	Low-Income Home Energy Assistance	27,476,170
93.575	Child Care And Development Block Grant	13,844,066 a
93.596	Child Care Mandatory And Matching Funds Of The Child Care And Development Fund	20,261,345 a
93.658	Foster Care - Title IV-E	52,789,524
93.778	Medical Assistance Program	16,534,527 c
Total Type A Programs Audited		<u><u>\$ 745,677,790</u></u>

The following is a list of Type B programs audited as major programs:

CFDA #	Program Title	Expenditures
17.253	Welfare-to-Work Grants To States and Localities	\$ 8,059,375

Identified clusters include:

- a** - Child Care Cluster
- b** - Food Stamp Cluster
- c** - Medicaid Cluster

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B Programs was \$15,000,000.

Auditee Risk

The Commonwealth did not qualify as a low-risk auditee.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

***Reportable Conditions Relating to Internal Controls and/or Reportable
Instances of Noncompliance:***

**FINDING 01-CFC-1: The Cabinet For Families And Children Should Improve
Local Area Network Server Security And Consistently Apply Policies To All Servers**

State Agency: Cabinet for Families and Children

CFC should improve security of its local area network servers. Additionally, CFC should consistently apply security policies to all its NT servers.

We reviewed the security for specific servers that were identified within CFC's CFCOTSNT domain. The technical support staff in the Office of Technology Services manages this domain. Using general scanning tools, we queried the domain to identify all Primary Domain Controllers, Backup Domain Controllers, and Structured Query Language servers. We then reviewed information divulged on specific servers in this domain to determine the established password policies and specific services that might be available on these systems.

Upon review of the password policies identified, we determined that the administrative password policies established were not consistently followed. Additionally, a vulnerability scan was performed on these servers that identified security issues concerning the available web server software and file transfer protocol (FTP) services running on the systems. It was noted that some versions of the web server software could allow a remote attacker to run commands on a web server remotely and gain control of the computer. Also, older versions of FTP software were identified, which could allow attackers to remotely initiate a denial of service condition.

To help ensure the security of a network, it is necessary for a strong password policy to be developed and implemented on all servers within the network. If servers within a network are not sufficiently secured, the network could be compromised through one of these more vulnerable paths. To ensure adequate security, all software should be kept updated.

Recommendation

We recommend CFC review all servers within the agency-owned domains to ensure that the password policy established on all servers complies with the guidelines specified by the agency. Further, we suggest that all services active on CFC servers be reviewed to ensure the most recent upgrades and/or patches have been installed.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

FINDING 01-CFC-1: The Cabinet For Families And Children Should Improve Local Area Network Server Security And Consistently Apply Policies To All Servers (Continued)

Management's Response and Corrective Action Plan

[Network Management Branch] NMB-Workstation We are in the process of implementing an enterprise wide password policy requiring monthly changes to user passwords. We are also in the beta phase of implementing a new ghost image across the enterprise. Security and workstation control policies as well as a consistent local administrator account for each workstation will be implemented with our new ghost image. Pilot sites will begin 3/4/02 with the remainder of the State to be completed by late summer or early fall.

NMB-Server We are in the process of changing the passwords on ALL service and administrator accounts. The list of these Domain administrator and service account passwords is maintained in a secure directory within an encrypted file (128 bit). Only 4 NMB staff members and the NMB Branch Manager have access to the directory and the key to the file. The service accounts that your initial scans found as not changing in very long increments in time are being phased out. We have created parallel service accounts and are building our new ghost images with the new service account names and passwords. Once we have canvassed the state with the ghost we will disable the old accounts. Work is ongoing in these areas. Completion will follow the ghosting rollout.

NMB-Services Vulnerabilities We are working on identifying all open services that exist on our network. Once we compile that list we will be securing those areas as well. Work in this area is ongoing. We hope to have all unnecessary services identified within the next few weeks and will take controlled action as quickly as possible once the risks are identified.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

***Reportable Conditions Relating to Internal Controls and/or Reportable
Instances of Noncompliance:***

**FINDING 01-CFC-2: The Cabinet For Families And Children Should Maintain
And Produce Records To Adequately Support Expenditures**

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.558–Temporary Assistance for Needy Families

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance: Allowable Costs/Cost Principles, Eligibility

Amount of Questioned Costs: Not Applicable

We tested a sample of 42 payments, consisting of object codes E450, E462 and E464 expenditures, to participants in the Kentucky Transitional Assistance Program. CFC failed to produce records to support expenditures and follow the PA-32 Procedural Instructions that are part of the Community Based Services Forms Manual for some of the sampled items. The instructions include detailed descriptions of how PA-32s should be completed by caseworkers.

We noted the following weaknesses:

- Recipient files were missing for four (4) of 42 cases tested.
- PA-32 was missing from file in one (1) case.
- Incomplete PA-32s in seven (7) cases (forms contained blank lines).
- PA-32 supportive service payment not supported by receipt or invoice in one (1) case.
- Incomplete information in recipient file in five (5) cases:
 - No income verification (pay stub) in one (1) case.
 - No verification of child's birth information (birth certificate, social security card, immunization records) in three (3) cases.
 - PA-85 (Referral for Child Care) missing in one (1) case.

CFC has not taken adequate measures to correct this problem as similar problems were noted in the FY 00 audit. However, there has been significant improvement and CFC should be recognized for its efforts.

CFC cannot be assured that all payments for both recurring and non-recurring expenses were valid. Also, if PA-32s are not completed according to instructions, the potential for fraud and misuse of funds exists.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-2: The Cabinet For Families And Children Should Maintain And Produce Records To Adequately Support Expenditures

Federal Regulations at 45 CFR 92.20 (a) (2), say “[f]iscal control and accounting procedures of the State . . . must be sufficient to . . . permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.”

Federal regulations at 45 CFR 92.42(b) (1), also say “ . . . records must be retained for three years from the starting date specified in paragraph C.”

Good internal controls dictate that procedures be followed to ensure that payments are made only for approved and allowable goods and services.

Recommendation

We recommend CFC remind staff of the importance of maintaining participant case files. Records should be produced and maintained to adequately support expenditures. The PA-32 forms should be completed according to instructions in all cases.

Management’s Response and Corrective Action Plan

Quality Central Staff are presently posting reminders on KAMES [Kentucky Automated Management and Eligibility System] News quarterly on the importance of correctly following procedures for Supportive Services and payments made by Form PA-32. KAMES News is accessed by all Family Support Staff.

We will advise staff, via an Each Local Office Memo to emphasize in training sessions as well as in staff meetings the importance of the completion and maintenance of the Form PA-32 and any verification needed. We will also emphasize the importance of completing and maintaining the case files.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**FINDING 01-CFC-3: The Cabinet For Families And Children Should Present
Accurate Notes To The Schedule Of Expenditures Of Federal Awards**

State Agency: Cabinet for Families and Children

Federal Program: All Federal Assistance Programs with Subrecipients

Federal Agency: U.S. Department of Agriculture,

U.S. Department of Energy,

U.S. Department of Health and Human Services, and

U.S. Department of Labor.

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

During our testing of subrecipient monitoring, we noted the following problems with the schedule of subrecipients:

- The schedule included both subrecipients and vendors. Vendors should not be included in the schedule of subrecipients.
- Amounts provided to subrecipients were not correctly identified for each federal program.
- Some expenditures were incorrectly coded in MARS. For example, CFC codes expenditures to Area Development Districts (ADDs) in MARS as E415, which is Program Administration Costs-1099 Reportable. However, the ADDs are actually subrecipients and quasi-governmental entities that do not file tax returns.

Failure to distinguish between subrecipients and vendors increases the chances that key audit requirements could be missed. It is our understanding that CFC requires all contractors to have an audit. This requirement ensures that true subrecipients obtain the required OMB Circular A-133 audit, as well as ensure that applicable vendors are properly monitored.

In addition, failure to distinguish between subrecipients and vendors may overstate the amounts reported as being sent to subrecipients in the notes to the Schedule of Expenditures of Federal Awards.

OMB Circular A-133 Subpart C .300(d) states the auditee should “[p]repare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with section .310.” Section .310 (b) (5) states that the Schedule of Expenditures of Federal Awards should contain, at a minimum “[t]o the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.”

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-3: The Cabinet For Families And Children Should Present Accurate Notes To The Schedule Of Expenditures Of Federal Awards (Continued)

OMB Circular A-133 Subpart D .400(d) states that a pass-through entity should perform the following for the federal awards it makes:

- (2) [A]dvise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$300,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

These requirements are also stated in the APA SEFA instructions given to CFC every year.

Recommendation

We recommend CFC obtain a clear understanding of the difference between a subrecipient and a vendor and the importance of such a distinction. This would lead to an accurate presentation of the notes to the Schedule of Expenditures of Federal Awards.

We also recommend that CFC review all expenditure coding in MARS to ensure that expenditures are coded correctly.

Management's Response and Corrective Action Plan

The cabinet realizes the importance of complying with the Sub-Recipient monitoring requirement of OMB Circular A-133. There will be a joint effort within the Office of Program Support to ensure that the proper steps are taken to ensure compliance regarding the subrecipient\vendor issue and the expenditure coding finding.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-4: The Cabinet For Families And Children Should Develop A Policies And Procedures Manual To Ensure Subrecipient Monitoring Is Properly Performed

State Agency: Cabinet for Families and Children

Federal Program: CFDA 17.253 - Welfare-to-Work Grants to States and Localities,

CFDA 93.558 - Temporary Assistance for Needy Families,

CFDA 93.563 - Child Support Enforcement,

CFDA 93.568 - Low-Income Home Energy Assistance,

CFDA 93.575 - Child Care and Development Block Grant, and

CFDA 93.596 - Child Care Mandatory and Matching Funds of the
Child Care and Development Fund

Federal Agency: U.S. Department of Labor and

U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

CFC contracts with local not-for-profit organizations, community action agencies, and county attorneys to provide Welfare-to-Work (WtW), Temporary Assistance for Needy Families (TANF), Child Support Enforcement (CSE), Low-Income Home Energy Assistance (LIHEAP), and Child Care and Development Fund (CCDF) services to needy families. As subrecipients of federal awards, organizations that expend in excess of \$300,000 are required to have a single or program-specific audit in accordance with OMB Circular A-133.

Audits of subrecipients must be submitted to CFC for review within nine (9) months after the end of the fiscal year being audited. We requested monitoring reports, subrecipient contracts, and audit reports to test CFC's compliance with OMB Circular A-133 provisions. We noted three (3) subrecipients failed to submit an audit report to CFC for FY 00. The Cabinet for Health Services, Office of the Inspector General (CHS/OIG), who has a contract with CFC to perform desk reviews, among other duties, has not received or timely performed 11 desk reviews for FY 00 audits for CFC subrecipients. During the contract monitoring testing, one (1) subrecipient was missed in the monitoring process for both FY 00 and FY 01.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-4: The Cabinet For Families And Children Should Develop A Policies And Procedures Manual To Ensure Subrecipient Monitoring Is Properly Performed (Continued)

CFC has not taken the appropriate steps to correct similar problems that were noted during FY 98, FY 99, and FY 00. Deficiencies noted during our review follow:

CFDA #	A-133 Audit Deficiencies
93.558 TANF	No desk review obtained for three (3) audits.
93.563 CSE	No desk review obtained for three (3) audits.
93.568 LIHEAP	Required audit report changes were not made for one (1) audit. No desk review obtained for six (6) audits, two (2) of which were vendors for TANF and LIHEAP (shown above). One (1) audit report was not obtained.
93.575 CCDF	Two (2) audit reports were not obtained.
93.596 CCMMF	The financial audit was confused with the OMB Circular A-133 audit. Audit reports and correspondence received at CFC were not being sent to CHS/OIG timely.

CFDA #	Contract Monitoring Deficiency
17.253 WtW	No contract monitoring performed for two (2) years on one (1) contract. Expenditures: FY 00 \$1,644,505 FY 01 \$2,762,165

CFC cannot be assured that subrecipients are expending federal awards for their intended purpose and complying with the requirements of OMB Circular A-133 without having proper monitoring procedures in place.

OMB Circular A-133, Subpart B states: “[n]on-Federal entities that expend \$300,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part.”

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-4: The Cabinet For Families And Children Should Develop A Policies And Procedures Manual To Ensure Subrecipient Monitoring Is Properly Performed (Continued)

CFC has the following responsibilities under OMB Circular A-133, Subpart D:

- 1) Advise subrecipients of requirements imposed on them by federal laws, regulations, and provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- 2) Ensure required audits are performed and require subrecipients to take prompt corrective action on any audit findings; and,
- 3) Evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

The Commonwealth of Kentucky Master Agreement, which is the contract between CFC and CHS/OIG states that OIG will: 1) perform reviews and audits to ensure financial compliance with state and federal laws and regulations and evaluate external audits performed for the Cabinet, and perform other related services, 2) complete desk reviews of A-133 audits within six (6) months of receipt and 3) meet the standard 100% of the time.

OMB Circular A-133 §____.225 states:

[n]o audit costs may be charged to federal awards when audits required by this part have not been made or have been made but not in accordance with this part. In cases of continued inability or unwillingness to have an audit conducted in accordance with this part, federal agencies and pass-through entities shall take appropriate action using sanctions such as:

- (a) Withholding a percentage of federal awards until the audit is completed satisfactorily;
- (b) Withholding or disallowing overhead costs;
- (c) Suspending federal awards until the audit is conducted; or
- (d) Terminating the federal award.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-4: The Cabinet For Families And Children Should Develop A Policies And Procedures Manual To Ensure Subrecipient Monitoring Is Properly Performed (Continued)

Recommendation

A policies and procedures manual would make the subrecipient monitoring process more effective and easier to follow. It would also ensure compliance with OMB Circular A-133 subrecipient monitoring compliance requirements. In particular, OMB Circular A-133 requires the pass-through entity (CFC) to receive audit reports from subrecipients required to have an audit in accordance with OMB Circular A-133, issue “timely” management decisions on audit and monitoring findings, and requires subrecipients to take “timely” corrective action on deficiencies identified in audits and subrecipient monitoring. OMB Circular A-133 does not specify what “timely” means, however, a CFC subrecipient monitoring policies and procedures manual could define that to ensure compliance and consistency.

The written policies and procedures should contain the following at a minimum:

- 1) Communication of federal award requirements to the subrecipients.
- 2) The responsibilities for monitoring and tracking subrecipients in a timely manner, with a definition of what “timely” means. An example would be to have deadlines for the response on each correspondence sent to the subrecipient and/or independent auditor, and after a maximum number of sent correspondences (such as three (3)), the file would be forwarded to General Counsel for pursuit of non-compliant items.
- 3) Specific monitoring processes. An example would be to better utilize the CFC Audit Log for OIG, perhaps through weekly updates.
- 4) Methodology for resolving the findings of subrecipient non-compliance or weaknesses in internal control and a timeline for corrective action.
- 5) Requirements for processing subrecipient audits, including appropriate adjustment of pass-through entity’s accounts, such as through the sanctions mentioned above.
- 6) Require CHS/OIG to be compliant with the six (6) months turnover of desk reviews as required by the CFC Contact.
- 7) Impose sanctions, disallow overhead costs, disallow expenditures, suspend federal awards, or terminate the federal award for subrecipients who fail to meet the audit requirements as set forth by the OMB Circular A-133.
- 8) Deny all requests for extensions made by the subrecipient who is failing to meet said requirement.
- 9) Establish a time limit on extensions for submitting an audit.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-4: The Cabinet For Families And Children Should Develop A Policies And Procedures Manual To Ensure Subrecipient Monitoring Is Properly Performed (Continued)

Management's Response and Corrective Action Plan

The Contracts Management Branch will create a policy and procedures manual to assist in the monitoring of subrecipients. Letters have been submitted to the agencies that failed to provide the Cabinet with a timely audit. Follow up is also being completed when necessary. We currently have in place a staff person that part of their responsibility is to make sure that audits are received timely and provided to the OIG's office.

The Contracts Accountability Branch will ensure all contracts which contain \$300,000 or more in federal funds are listed for review. They will sort the contract list by allocation amounts and select those contracts of \$300,000 or more in federal dollars for review prior to making other selections.

FINDING 01-CFC-5: The Cabinet For Families And Children Should Comply With OMB Circular A-133 Compliance Supplement Appendix VII SAS 70 Examination Requirements

State Agency: Cabinet for Families and Children

Federal Program: CFDA 10.551–Food Stamps

CFDA 10.561–State Administrative Matching Grants for Food Stamps Program

Federal Agency: U.S. Department of Agriculture

Pass-Through Agency: Not Applicable

Compliance Area: None (Compliance Supplement Appendix VII - SAS 70 Examinations of EBT Service Organizations)

Amount of Questioned Costs: Not Applicable

Under the Food Stamps program, states must obtain an examination by an independent auditor of the state EBT service provider (service organization), which for Kentucky is eFunds Corporation (eFunds). During a review of the Statement on Auditing Standards (SAS) 70 examination for eFunds, we noted the following:

1. The SAS 70 examination did not cover the entire period since the previous examination period. The SAS 70 audit covered 12/1/00 thru 5/31/01. The previous examination covered 12/1/99 thru 5/31/00. This leaves a six-month gap between examinations.
2. The examination did not contain a list of all states whose systems operate under the same control environment.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-5: The Cabinet For Families And Children Should Comply With OMB Circular A-133 Compliance Supplement Appendix VII SAS 70 Examination Requirements (Continued)

When the service provider is not required to have a SAS 70 examination cover the entire period since the previous examination period, possible control weaknesses could develop in the internal control system and not be detected in a timely manner.

Appendix VII of the OMB Circular A-133 Compliance Supplement states:

[s]tates must obtain an examination by an independent auditor of the State electronic benefits transfer (EBT) service providers (service organizations) regarding the issuance, redemption, and settlement of benefits under the Food Stamps program (CFDA 10.551) in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 70, Service Organizations. Also, States are required to ensure that the service organization has these examinations performed at least annually, that the examinations cover the entire period since the previous examination period, and that the examination reports are submitted to the State within 90 days after the end of the examination period. The examination report must include a list of all States whose systems operate under the same control environment.

Recommendation

We recommend that CFC comply with OMB Circular A-133 Compliance Supplement Appendix VII regarding SAS 70 Examinations of EBT Service Organizations by requiring the service provider to have an annual SAS 70 examination that covers the entire period since the previous examination period. The report should also include a list of all states whose systems operate under the same control environment.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-5: The Cabinet For Families And Children Should Comply With OMB Circular A-133 Compliance Supplement Appendix VII SAS 70 Examination Requirements (Continued)

Management's Response and Corrective Action Plan

We were aware the SAS 70 audit from eFunds did not cover a continuous twelve-month period. We have been working with eFunds to correct this situation. We have been notified by eFunds that they have entered into an agreement with Deloitte & Touche to provide SAS 70 audits for successive twelve-month periods. They are currently working on an audit that will cover the period June 1, 2001 through May 31, 2002. They are unable to audit the periods that were not audited in the past. We continue to work with eFunds to insure the next audit will include the states the audit covers. In the event we are unable to have the states covered by the audit included in the audit, we will require an addendum to the audit identifying the states covered by the audit.

FINDING 01-CFC-6: The Division Of Child Care Should Have Formalized Logical Security Procedures To Follow For The Kentucky Child Care Management System

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.575 – Child Care and Development Block Grant
CFDA 93.596 – Child Care Mandatory and Matching Funds of the
Child Care and Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Not Applicable (Internal Controls)

Amount of Questioned Costs: None

As noted in the previous three (3) audits, CFC, Division of Child Care did not provide adequate security for the Kentucky Child Care Management System (KCCMS). The CFC Office of Technology Services (OTS) administers KCCMS security. OTS followed certain security authorization procedures to establish, modify or revoke system access to KCCMS. Those procedures included efforts to ensure all system users completed a System Access Request (SAR) form to update and re-organize the security files. However, the logical security procedures were not formalized into a comprehensive security policy for CFC.

We obtained a listing of KCCMS system users from the security administrator. This listing included 209 system IDs broken out by the various service agencies. Our review noted 33 SAR forms that did not have the proper approval required to grant the access provided. This represented 15% of the population tested.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-6: The Division Of Child Care Should Have Formalized Logical Security Procedures To Follow For The Kentucky Child Care Management System (Continued)

Additionally, during the prior audit we noted the system would not force users to change their password for KCCMS. During FY 01, users were required to change their password and then continue to change it every 30 days. The security administrator issued access procedures, which included password guidelines via email to KCCMS users. Again, these security procedures were not formalized into a comprehensive security policy for CFC.

Consistent application of formalized security policies provides continuity for policy implementation and sets the tone of management concern for strong system security. Formal policies provide a security framework used to educate management and users of their security responsibilities. Further, the propriety of system access levels granted cannot be ensured without properly documented and approved access requests. Levels of system access granted to users should be restricted to areas necessary for the employee to perform assigned job duties.

Recommendation

We recommend the Division of Child Care, in conjunction with the OTS, take the following steps to improve the logical access security function:

- Comprehensive computer security policies should be formally documented, approved, and implemented across all service agencies.
- The Security Administrator should make certain that all request forms are completed and properly approved to ensure proper access levels are granted to users. In addition, a listing of all accesses should be reviewed periodically to ensure employee data and access rights are current.

Management's Response and Corrective Action Plan

A security team was formed in January to comply with the recommendations of these findings. The team is made up of security administrators from OTS. Weekly meetings were held to develop security procedures. These procedures were developed for KCCMS, KAMES, KASES, and TWIST. These procedures are incorporated in a new manual, "CFC System Security Access Procedures". These procedures also include RACF security requirements. The manual has been provided to the Child Care Director to be used to incorporate them in childcare policy also.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-7: The Cabinet For Families And Children Should Ensure Every Effort Is Made To Establish And Enforce Medical Support Obligations

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.563 – Child Support Enforcement

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance: Eligibility and Special Tests and Provisions

Amount of Questioned Costs: None

We reviewed 25 child support cases using the Kentucky Automated Support and Enforcement System (KASES) system. We found five (5) of the cases were incomplete; specifically, the following deficiencies were noted:

Cases A and B did not provide any documentation of follow up to show that the caseworker attempted to establish support or enforce support. There was also no follow up or documentation to indicate if medical support information was obtained.

Cases C, D, and E did not provide any documentation that would indicate that medical support information was established, gathered, or followed up on.

CFC's Division of Child Support has not taken appropriate steps to correct similar problems that were noted during the FY 00 audit.

The Division of Child Support is unable to fulfill its objectives when a caseworker fails to properly process and follow up on child support cases. The division's objectives are to enforce support obligations owed by noncustodial parents, locate absent parents, and obtain child and spousal support. When a caseworker does not process and properly follow up on a case, they are not meeting the above objectives; therefore, the case workers are not providing the proper service to ensure that the child's needs are addressed.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-7: The Cabinet For Families And Children Ensure Every Effort Is Made To Establish And Enforce Medical Support Obligations (Continued)

CFR Title 45 Part 303.31 (b) states,

[the IV-D agency must:] (1) Unless the custodial parent and child(ren) have satisfactory health insurance other than Medicaid, petition the court or administrative authority to include health insurance that is available to the noncustodial parent at reasonable cost in new or modified court or administrative orders for support . . . (5) Provide the custodial parent with information pertaining to the health policy which has been secured for the dependent child(ren) pursuant to an order obtained in this section. (6) Inform the Medicaid agency when a new or modified court or administrative order for child support includes medical support and provide the information . . . to the Medicaid agency when the information is available. (7) If health insurance is available to the noncustodial parent at reasonable cost and has not been obtained at the time the order is entered, take steps to enforce the health insurance coverage required by the support order and provide the Medicaid agency with the information . . .

Recommendation

We recommend that the Division of Child Support provide more training to their caseworkers to ensure that all efforts are made in locating noncustodial parents, establishing support, and enforcing support in accordance with 45 CFR. The agency needs to ensure that all follow up and processing of the cases are adequately documented and that all aspects of the cases are addressed.

All regulations and procedures should be followed to ensure compliance. Caseworkers need to make sure that custodial parents have satisfactory health insurance other than Medicaid and petition the court or administrative authority for custodial parents who do not have satisfactory health insurance. The caseworker also needs to verify that absent parents obtain health insurance coverage and document any reason for not obtaining coverage. They should also inform both the custodial parent and Medicaid when the absent parent has health insurance or CFC obtains health insurance.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-7: The Cabinet For Families And Children Ensure Every Effort Is Made To Establish And Enforce Medical Support Obligations (Continued)

Management's Response and Corrective Action Plan

Case A- An email was sent to the responsible worker and a response has not been received to date. A call was made to the Contact Person in the Contracting Official's office however the phone was on voice mail. The supervisor left a message with the information needed for the contact person and asked worker to contact supervisor as soon as possible. If this is completed before [close of business] COB today, the supervisor will update this case.

Case B- Case was reviewed and discovered this was an inappropriate referral to child support as Family Support considers this an "Intact Family."

Case C- Medical Insurance was not available for the mother as she is incarcerated. Case will be reviewed and enforced for medical as soon as she is available.

Case D- An email was sent to the responsible worker and a response has not been received to date. A call was made to the Contact Person in the Contracting Official's office however the courthouse is closed on Wednesday. A voice mail was left to have the contact person return the supervisor's call with an update on this case as soon as possible.

Case E- Non-custodial parent could not be located. The case was referred to the State Parent Locator Section to pursue location. The worker will monitor the case every 2 weeks and as soon as positive location is returned, the case will be referred to the County Attorney for enforcement action.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating to Internal Controls and/or Compliance:

FINDING 01-CFC-8: The Cabinet For Families And Children Should Establish A Claim Against Households Within The Required Time Period

State Agency: Cabinet for Families and Children

Federal Program: CFDA 10.561-State Administrative Matching Grants for Food Stamps Program

CFDA 93.558 - Temporary Assistance for Needy Families

Federal Agency: U.S. Department of Agriculture

U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: None

We tested 42 cases involving Food Stamps and K-TAP claims against households established between July 1, 2000 and June 30, 2001 for compliance with federal regulations. We found that 19 of 42 claims tested were not established within the required time period. On average, it took nearly 12 months to establish a claim against a household from the time an over-issuance was initially discovered.

Failure to establish a claim against a household within the required time period is a violation of federal regulations and agency policy. Delays in establishing claims against households make it difficult for the agency to subsequently collect the claims.

In addition, when an excessive amount of time is taken to establish a claim against a household, collection of the claim is often suspended or terminated because the household cannot be located or the cost of collection may exceed the amount that can be recovered. This results in old/uncollectible receivables for claims, most of which are inactive, being carried forward for many years.

Code of Federal Regulations Title 7 Section 273.18(a) states, "The State agency shall establish a claim against any household that has received more food stamp benefits than it is entitled to receive . . ."

The Field Services Operation Manual, Volume I, Section 1515, Timely Claims Processing, states,

If there is reason to suspect that an erroneous benefit has occurred in an active or inactive case, enter the claim on the KCA system.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 01-CFC-8: The Cabinet For Families And Children Should Establish A Claim Against Households Within The Required Time Period (Continued)

Complete K-TAP and food stamp determinations before the last day of the quarter following the quarter in which the suspected overpayment is first discovered. The discovery date of the claim is the date on which the claim verification and category are known. The worker must enter this date on the KCA system in the discovery date field. Reference MS 1500.

Recommendation

CFC should enforce federal regulations and policies set forth in the Field Services Operations Manual regarding claims establishment. Through further testing of the claims system, which extended into FY 02, we have noted that the computer system has been updated and procedures have been put in place to establish claims within the required time period. These system updates and new procedures have improved the agency's timeliness of claim establishment. Further testing of 20 claims discovered after August 1, 2001 found that all 20 claims tested were established within the required time limit. The corrective action plan submitted by the agency in the FY 00 Record of Control Weakness is in place and working effectively.

Management's Response and Corrective Action Plan

We agree that the establishment of claims on a timely basis is essential to the success of collections on claims. We have a 3% target increase for Federal Fiscal Year (FFY) 2002 for the establishment goal. After the 1st quarter of FFY'02 we are 28 ½ % toward this goal. We have emphasized with field staff, through their Service Region Administrators (SRAs), the importance of establishing claims. As of January 2002, part of the evaluation of SRA's job performance is based on their Region's success in both establishment and collection of claims. We have run computer listings for pending past due claims and have sent memorandums to each individual field office asking them to identify the reason that each pending claim is past due and the need to correct the problem. The first listing went out in October 2001 and a follow-up memorandum went out in March 2002. The response to this action has been very encouraging and many past due claims have been established. We have taken the advice of federal reviewers and are currently considering raising the dollar amounts for referring claims to both OIG and OAG. Neither office has been able to meet the time-frames for determining a claim and returning to local staff for establishment.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 00	00-CFC-1	The Cabinet For Families And Children Should Monitor The Division Of Child Support Enforcement's Contract With Tier Technologies	N/A	\$ 0	Resolved during FY 01.
FY 00	00-CFC-2	The Cabinet For Families And Children Should Implement Cash Controls To Strengthen The Collections Process At Tier Technologies	N/A	0	Resolved during FY 01.
FY 00	00-CFC-3	The Cabinet For Families And Children Should Implement A System For Identifying Specific Expenditure Types Within MARS	N/A	0	Resolved during FY 01.
FY 00	00-CFC-5	The Cabinet For Families And Children Should Track All EBT Cards Issued At DCBS Local Offices	10.561	0	Resolved during FY 01.
FY 00	00-CFC-6	The Cabinet For Families And Children Should Reconcile FNS-46 Reports Before They Are Submitted To USDA	10.561	105,965	Refiled reports resolved questioned costs during FY 01. This finding is resolved.
FY 01				(105,965)	
		Total Questioned Costs		<u>\$ 0</u>	
FY 00	00-CFC-7	The Cabinet For Families And Children Should Improve Access Security Controls For Manual Input Of EBT – Food Stamp Records To The Edge System	10.561	0	Resolved during FY 01.
FY 99	99-CFC-31	The Cabinet For Families And Children Should Strengthen Controls In Preparing The Schedule Of Expenditures Of Federal Awards	N/A	0	Resolved during FY 01.

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions (Continued)</u>					
<i>(1) Audit findings that have been fully corrected: (Continued)</i>					
FY 99	99-CFC-32	The Cabinet For Families And Children Should Reimburse The U.S. Department For Health And Human Services For Improper Payments	93.596	\$ 105,421	Resolved during FY 01.
FY 00				(105,421)	
		Total Questioned Costs		<u>\$ 0</u>	
FY 99	99-CFC-35	The Department For Disability Determination Should Improve Program Modification Procedures	N/A	0	Resolved during FY 01.
FY 97	97-CFC-42				
FY 98	98-CFC-18	The Cabinet For Families And Children Should Improve Efforts To Enforce The Policies In Relation To The State Administrative Matching Grants For The Food Stamps Program	10.561	0	Due to improvements, this finding is downgraded to an other matter for FY 01. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .
FY 98	98-CFC-21	The Cabinet For Families And Children Should Integrate Systems To Improve The Claims Process For The TANF Program	93.558	23,175	Due to improvements, this finding is downgraded to an other matter for FY 01. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .
FY 97					
FY 01				(23,175)	
		Total Questioned Costs		<u>\$ 0</u>	
FY 98	98-CFC-24	The Cabinet For Families And Children Should Maintain All Billing And Eligibility Documentation To Support Payments To Families Receiving Assistance From The Child Care And Development Fund	93.596	0	Resolved during FY 01.
FY 99				1,847	
FY 01				(1,847)	
		Total Questioned Costs		<u>\$ 0</u>	

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions (Continued)</u>					
<i>(1) Audit findings that have been fully corrected: (Continued)</i>					
FY 98	98-CFC-26	The Cabinet For Families And Children Should Ensure That	93.558	\$ 0	Due to improvements, this finding is downgraded to an other matter for FY 01. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .
FY 97		Complete Records Are		1,290	
FY 01		Maintained For TANF Recipients		(1,290)	
		Total Questioned Costs		0	
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 00	00-CFC-4	The Cabinet For Families And Children Should Impose Sanctions On Subrecipients Who Fail To Meet Audit Requirements Set Forth By OMB Circular A-133	93.558 93.563 93.575 93.596	0	The agency has made progress toward complying with audit recommendations; however, exceptions still found. See 01-CFC-4.
FY 00	00-CFC-8	The Cabinet For Families And Children Should Establish And Enforce Medical Support Obligations For Custodial Parents	93.563	0	Audit once again found that proper enforcement and establishment of medical support was not obtained. See 01-CFC-7.
FY 98	98-CFC-27	The Cabinet For Families And Children Should Maintain	93.558	0	FY01 testing revealed missing case files and documentation. CFC has made significant improvement, but weaknesses still exist. See 01-CFC-2.
FY 97		Records To Support Payments		777	
FY 01		To Participants In The Kentucky Works Program		(777)	
		Total Questioned Costs		<u>\$ 0</u>	
FY 98	98-CFC-31	The Division Of Child Care Should Consistently Follow Logical Security Procedures For The Kentucky Child Care Management System	N/A	0	While improvements were made in this area during FY 2000, some issues were not resolved. See 01-CFC-6.

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Reportable Conditions (Continued)

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid and does not warrant further action:

There were no findings for this section.

Material Weaknesses/Noncompliances

(1) Audit findings that have been fully corrected:

There were no findings for this section.

(2) Audit findings not corrected or partially corrected:

There were no findings for this section.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

There were no findings for this section.

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 00	00-CFC-10	The Cabinet For Families And Children Should Maintain Adequate Supporting Documentation For The ACF-696 Report That Is Submitted To DHHS	93.575 93.596	\$ 0	Resolved during FY 01.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 00	00-CFC-11	The Division Of Child Support Should Monitor Caseworkers To Ensure That Efforts Are Being Made To Establish And Enforce Support Obligations	93.563	0	Audit once again found that proper enforcement and establishment of medical support was not obtained. See 01-CFC-7.
FY 98	98-CFC-26	The Cabinet for Families And Children Should Implement Measures For Timely Audit Reports In Relation To Low Income Home Energy Assistance Branch	93.568	0	Although CFC has made progress toward complying with audit recommendations, ongoing problems were noted in FY 01. See 01-CFC-4.
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
There were no findings for this section.					
<i>(4) Audit finding is no longer valid and does not warrant further action:</i>					
FY 00	00-CFC-9	The Cabinet For Families And Children Should Manually Reduce Food Stamp Benefits For Households That Received More Benefits Than They Were Entitled To Receive	10.561	0	This finding was downgraded to an other matter during FY 01 due to the corrective action taken by CFC during FY 02 to resolve this finding. See 01-CFC-8.